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STATE OF DELAWARE  
**THE PUBLIC SERVICE COMMISSION**  
1560 SOUTH DUPONT HIGHWAY  
DOVER, DELAWARE 19901

December 18, 1996

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Office of the Secretary  
Federal Communications Commission  
1919 M Street, NW  
Room 222  
Washington, DC 20554

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Re: *In the Matter of Federal-State Joint Board on Universal Service*  
CC Docket No. 96-45, Submission of Comments  
of the Chairman of the Delaware Public Service Commission

Dear Secretary:

Pursuant to the Public Notice released on November 18, the Chairman of the Delaware Public Service Commission submits the enclosed comments concerning the Recommended Decision adopted by the Joint Board on November 7, 1996. An original and four copies of the comments are enclosed. An additional copy has been submitted to the Commission's copy contractor. Copies have also been sent by United States mail to persons on the service list.

If you need any additional information, please call me at (302) 739-2534.  
Thank you.

Enclosure (original and four)

Sincerely yours,



Gary A. Myers  
Deputy Attorney General

cc: International Transcription Service (w. 1 copy)  
Service List (w. 1 copy)  
Linda Mills, Secretary, Del. PSC (w. 1 copy)  
Bruce Burcat, Exec. Dir., Del. PSC (w/o copy)

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Before the  
**FEDERAL COMMUNICATIONS COMMISSION**  
Washington, D.C. 20554

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In the Matter of )  
Federal-State Joint Board on ) CC Docket No. 96-45  
Universal Service )  
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**COMMENTS OF THE CHAIRMAN OF THE DELAWARE PUBLIC SERVICE  
COMMISSION IN RESPONSE TO THE RECOMMENDED DECISION  
OF THE JOINT BOARD**

The Chairman of the Delaware Public Service Commission ("PSC") offers these comments in response to the Public Notice released on November 18, 1996 in this docket. That Notice solicited comments on the content and implementation of the Recommended Decision Concerning Universal Service adopted by the Joint Board on November 7, 1996. The address of the Chairman is:

Delaware Public Service Commission  
1560 S. DuPont Highway  
Dover, DE 19901  
(302) 739-4247 (voice)  
(302) 739-4849 (facsimile)

A. Summary

The Chairman of the PSC submits these comments because it is concerned that Delaware, and its citizens, will become "net losers" under each of the Universal Service funding mechanisms recommended by the Joint Board. Under the proposals tendered by the Joint Board, Delawareans run the real risk of paying, through increased rates, substantially more monies to support the federal Universal Funds than they can expect to flow back to

their State to help their schools, their health facilities, and their less-advantaged fellow citizens.

The Chairman is particularly concerned that two choices previously made by Delaware - one aimed at encouraging the development of an ubiquitous, highly-developed telecommunications network within Delaware and the other directed towards providing funds to ensure that such a network reaches into each classroom in its public schools - will now work to this State's detriment. Delaware has used its own state resources to pursue these goals. It is fearful that the pool of federal Universal Service funds will now flow primarily to those states who had not earlier made similar commitments. If so, Delaware will be left with even less of an opportunity to benefit from the federal monies. In the meantime, the large federal Universal Service Funds envisioned by the Recommended Decision, requiring large revenue surcharges, will almost invariably lead to increased monthly telephone bills for Delaware ratepayers. If that happens, and if in Delaware's situation most of monies from the price increase flow for the benefit of other states, it will become more difficult for Delaware to continue its commitments to ensure that its citizens and students have the benefits of a first-rate telecommunications network.

1. Delaware's Prior Commitments

Delaware is a small state in geographic size, in population, and in telephone lines (512,000). However, it is these diminutive numbers which have allowed the State to

encourage, and now enjoy, a modern, efficient telecommunications network.

In 1993, the State extended a regulatory compact to the incumbent local exchange carrier, Bell Atlantic-Delaware, Inc. In exchange for price-cap regulation, BA-Del would committed to investing \$250 million dollars in telecommunicationstechnology infrastructure over a five year period, with a particular focus on using such technology to assist in the areas of education, health care, and the delivery of governmental services. In addition, the compact required BA-Del to make ISDN service available to ratepayers throughout the State within three years.

Today, Delawareans enjoy the results of that compact. BA-Del's entire network within the State is now fully digitized and every switch is ISDN capable. Without Lifeline participation, telephone penetration remains above 95 per cent and for \$15.02 a month,<sup>1</sup> every Delawarean has access and unlimited calling within one of just three county-wide local calling areas.

Delaware has made similar commitments to "connect" its public schools. It has earmarked the sum of \$30 million from its Twenty-First Century Fund and created the statewide Center for Education and Technology in order to bring the latest computer and telecommunicationstechnology into the State's classrooms. Today, *every public school in*

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<sup>1</sup>This rate applies throughout the State and encompasses "dial tone" at \$9.40, "touch-tone" at \$.60, unlimited usage for \$1.52, and the federal SLC charge of \$3.50. The monthly charge for similar single-line business access is \$28.13, plus the \$6.00 federal SLC charge.

*the State* is interconnected utilizing a SMDS platform at 1.544 mbps. Today, within those schools one-third of the classrooms (including all those in high schools) are connected. By the Fall of 1997, that number will rise to two-thirds and by the Fall of 1998, *every public school classroom in the State* will be wired. At the same time, the state Office of Telecommunications Management, acting under a discounted state-wide contract, expends nearly \$1 million each year to meet provide Internet access.

2. Delaware's Concerns

The adoption of any federal Universal Service Fund mechanisms will not suspend these prior commitments made by Delaware citizens. However, the Chairman of the PSC is concerned that the structure of the Universal Service Funds now proposed may impede Delaware's efforts to make available to its citizens one of the nation's most efficient telecommunications network.

For example, under the proposed High Cost Fund mechanism, it appears that Delawareans will, under any of the alternatives being considered, pay out more to the High Cost Fund than will be returned to the State.<sup>2</sup> This will be true without regard to whether the base for that fund is limited to just interstate revenues or is expanded to combined inter- and intrastate revenues; it is true without regard to whether the proxy model used to

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<sup>2</sup>This conclusion is derived from models constructed by the Staff Subcommittee on Communications of the National Association of Regulatory Utility Commissioners. Those models accompany that subcommittee's report entitled The Revenue Base for Federal Universal Service Support (Dec. 8, 1996).

determine costs builds upon either the Hatfield or BCM2 models; and it is true without regard to whether the “revenue benchmark” is set at \$20, \$30, or \$40. By way of example, assuming: (1) a \$30 revenue benchmark with full federal funding; (2) a cost proxy model similar to either the Hatfield or BCM2 models; and (3) a federal High Cost fund based on interstate revenues only, the percentages of revenues raised in Delaware which not be returned to the State would be 36% utilizing the BCM2 model and 99% utilizing the Hatfield model. Similarly, even if the initial two assumptions continue, but the revenue base for the fund is expanded to both inter- and intrastate revenues, the out-flow from Delaware revenues would be 22% utilizing the BCM2 model and 56% utilizing the Hatfield model.

Such a discrepancy in collections and recaptured allocations also appears likely for Delaware under the proposed School and Library Fund. The Recommended Decision recommends capping that fund at \$2.25 billion and looking to combined inter- and intrastate revenues to providing such monies. Using those assumptions, and assuming a national revenue base of \$164 billion, the contribution from Delaware revenues would be \$5.4 million.<sup>3</sup> While that sum might be small, or even minuscule, on a national scale, it is more than double the estimated amount of \$2 to 2.5 million dollars that Delaware would need to provide *free* telecommunications and Internet access to all its public schools and libraries.

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<sup>3</sup>To raise the \$2.25 billion for the Fund from national combined inter- and intrastate revenues would require a surcharge of 1.37%. Applying that charge to the Delaware combined revenues of \$394.76 million would raise the \$5.41 million Delaware contribution.

Even if the School and Library Fund was to be grounded only in interstate revenues, the result would be nearly the same. Using a national interstate revenue base of \$68.67 billion, the contribution from Delaware revenues would be approximately \$6.7 million.<sup>4</sup> Once again, that amount far exceeds the amount Delaware would need to provide a *100 per cent* discount to its schools and libraries.

Finally, there is real concern that Delaware might not be able to obtain from the School and Library Universal Fund (regardless of the revenues chosen for its base) the amounts needed to provide for its schools and libraries. If the monies in the capped School and Library Fund are credited or distributed on a "first-come, first-served basis" schools in other states - which have not made the previous efforts to wire their classrooms - will, most likely, quickly exhaust the first \$2 billion of the fund with their high invoices reflecting the greater expenditures for inside wiring coupled with on-going telecommunications services. In addition, once the rules of priority suggested by the Joint Board are invoked at the \$2 billion dollar level, then Delaware will be effectively shut-out. With student school lunch participation in the State hovering near 35 per cent, most Delaware schools will not fall within the category of "the most economically disadvantaged" eligible to draw upon the last \$250 million dollars in the Fund.

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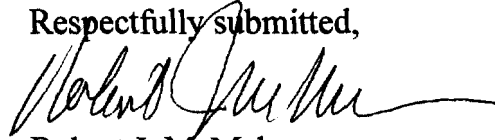
<sup>4</sup>Using that national figure, the surcharge needed to raise the \$2.25 billion Fund would be 3.27 %. Again, applying that figure against the \$203.45 million of Delaware interstate revenues would raise the \$6.6 million contribution.

3. Conclusion

The Chairman of the PSC realizes that a national technologically-advanced telecommunications network is in Delaware's interest and that each state, in a federal system, has an obligation to help establish such a network available to all the nation's citizens. However, the Chairman of the PSC is afraid that if this national commitment translates into a large federal Universal Service funds, calling for large federally-mandated surcharges on revenues, Delaware will suffer unfair consequences. With Delaware rates for telecommunications services likely to rise as the carriers pass through their federal Universal Service Fund contributions, and with much of those Funds' proceeds flowing outside Delaware to other states, Delawareans may be unable, or unwilling, to pay even larger bills to ensure that Delaware's citizens, young and old, have access to an advanced telecommunications network.

The Chairman of the PSC asks the Federal Communications Commission to carefully consider the impact that the federally Universal Service Funds will have on those high revenue, small states that have already invested their own resources to provide an efficient telecommunications network readily available to its citizens and students. The Chairman hopes that the mechanisms adopted by the Commission will not unnecessarily penalize those states for their prior efforts.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Robert J. McMahon", with a long horizontal flourish extending to the right.

Robert J. McMahon

Chairman

Delaware Public Service Commission

1560 S. DuPont Highway

Dover, DE 19901

(302) 739-4247 (voice)

(302) 739-4849 (facsimile)

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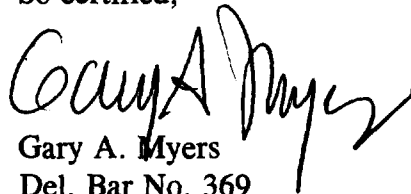
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CC Docket No. 96-45

**CERTIFICATE OF SERVICE**

I, Gary A. Myers, a member of the Delaware Bar and counsel here for the Public Service Commission of Delaware, do declare under the pains of the penalties for perjury that on December 18, 1996, I did cause one copy of the "Comments of the Staff of the Delaware Public Service Commission in Response to the Recommended Decision of the Joint Board" to placed in the United States mail, first-class postage prepaid, at Dover, DE addressed to each of the persons listed on the attached service

So certified,



Gary A. Myers  
Del. Bar No. 369  
Deputy Attorney General  
Delaware Department of Justice  
Public Service Commission  
1560 S. DuPont Highway  
Dover, DE 19901  
(302) 739-2534 (voice)  
(302) 739-4849 (facsimile)

Dated:

December 18, 1996

Washington, D.C. 20554

Parties are also asked to submit comments on diskette. Diskette submissions would be in addition to and not a substitute for the formal filing requirements addressed above. Parties submitting diskettes should submit them to Sheryl Todd, Common Carrier Bureau, 2100 M Street, N.W., Room 8611, Washington, D.C. 20554. Such a submission should be on a 3.5 inch diskette in an IBM compatible format using WordPerfect 5.1 for Windows software in a "read only" mode. The diskette should be clearly labelled with the party's name, proceeding, and date of submission. The diskette should be accompanied by a cover letter.

---FCC---

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